



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: October 9, 2008

TO: Honorable Councilmember Donna Frye, District 6

FROM: Lakshmi Kommi, Debt Management Director
via Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Update on the proposed Municipal Water and Sewer Bonds

The following are responses to the issues pertaining to the status of the Water and Wastewater System financings inquired in the Memorandum dated September 19, 2008. The requested list of projects being considered for funding with proceeds from the proposed bond issuances is addressed in the companion memorandum from the Water and Wastewater departments.

I. Water System Bond Issuance

The funds to repay the \$57 million 2007A and \$150 million 2008A short term notes will be made available through the proposed 2009 Water Revenue Bonds ("2009 Bonds"), which will consist of two series of bonds:

- (i) 2009A Series: The 2009A Series, a refunding only series, is scheduled for January 2009; proceeds from the Series 2009A Series will be utilized to:
 - Refund the \$57 million principal of the 2007A Notes due January 30, 2009; and
 - Refund eligible maturities of the 1998 Water System Certificates of Undivided Interest that provide at least 3% net present value savings.
- (ii) 2009B Series: The 2009B series is scheduled for April/May 2009; proceeds from the Series 2009B Bonds will be utilized to:
 - Refund the 2008A Notes (principal \$150 million);
 - Finance construction of Capital Improvements Program (CIP) projects through approximately June 2010 with an estimated \$150 million in new money proceeds; and
 - Refund any additional outstanding 1998 Certificates if economical.

The financing plan and the legal documents to implement the proposed 2009 Bonds are docketed for the City Council meeting of October 27/28, 2008. The proposed permanent financing is structured on a fixed rate basis with a 30-year term. On February 26, 2007, the City Council approved four 6.5% annual water rate increases for FY 2008 through FY 2011. The revenue from these rate increases will support the debt issuances for the CIP projects.

2. Wastewater Bond Issuance

A long term financing proposal is currently being developed containing the following elements:

- First, if market conditions are favorable, to refund the eligible maturities of the Senior Series 1993, 1995, 1997A & B, and the 1999A & B Sewer Revenue Bonds that provide at least a 3% net present value savings;
- Followed by financing Wastewater CIP construction for two years with an estimated \$150 million in new money proceeds; and concurrently
- Refund the \$223.83 million principal of the 2007 Sewer Subordinate Note that matures May 15, 2009. The 2007 Sewer Subordinate Note was issued to implement the CIP projects mandated by the Consent Decree.

The proposed 2009 Wastewater Bond Issuance is anticipated to be executed in early 2009.

On February 26, 2007, the City Council approved a series of four annual rate increases beginning May 2007 and continuing until May 2010. The rate increases for May 2007 and 2008 were 8.75%, and the rate increases for May 2009 and 2010 are 7.00%. The revenue from these rate increases will support the debt issuances for the CIP projects.



Lakshmi Kommi
Debt Management Director

cc: Honorable Members of the City Council
Chief Operating Officer
City Attorney
Independent Monitor
Independent Budget Analyst